To lead life, Humans are supposed to undertake an occupation.

**Types of occupation**: Employment, Profession, business

**Employment**: one(employee) has to work under another(employer) for wages(daily) or salary(monthly).

- Employee has to follow instructions of employer, it is called Terms of Employment.

- Employer-Employee relationship

**Professional**: continuous practice or repeated practice on same work. (chef, artist, etc.) takes fees for his work.

- if he practices independently, then he is called professional man.

- If he is employed in any organization for fixed remuneration, he is called employee

- Professional man- client relationship

**Business** = Industry(production) + commerce(exchange)

**Types of Industries:**

1) ***Manufacturing***: Transforming raw material into finished product with help of manpower and machines.

result may be consumner(end user can use) or producer(industries can further use) goods.

eg., textiles, sugar, paper, etc

2) ***Extractive***: extraction of natural resources beneath the earth.

eg., iron ore, coal ore, etc

3)***Genetic or primary***: reproduction of animals and plants. eg., fisheries, animal husbandary, etc

4) ***Processing***: production of products with different processes. eg., petrochemicals, food, beverages, etc.

5) ***Construction***: fixed layout. eg., buildings, bridges, etc

6) ***Services business***: intangible. eg., education, tourism, medical, etc.

7) ***Assembling***: assembling of a product with various parts or components from different industries. eg., car, tv, phone, etc

**Characteristics of Business:**

1) ***dealing with goods and services***: exchange is transaction. repeated transaction is caled business.

2) ***Profit motive***: % on cost.

cost+ profit=selling price

3) ***risk factor***: business risk(assets utilization- traceability) & market risk(change in taste)

**Accounting**: language through which business speaks with outsiders and insiders called stakeholders.

Art of recording, classifying and summarizing whether business resulted profit or loss.

***Recording***: financial transactions will be recorded in orderly manner soon after the occurance in appropriate account books.

***Classifying***: grouping similar type of transactions at one place.

***Summarizing***: preparing and presenting of the classified data in a manner useful to the users.

***Interpreting***: should explain why something is happened, and what is likely to happen under specific conditions.

**Objectives**:

- useful info

- complete records

- protect business props(fixed assets, purchase date, utilization rate)

- rational decision making(drop product, enhance product, increase productuion, additiuonal plant)

- calculate and reasons for profit or loss

- financial positon

**Bookkeeping**: systematic record of the transactions.

- to correct picture of income & expenditure at end of account period

- work of accountant begins after the work of bookkeeper ends

***Types of Bookkeeping***: single(personal, real) entry & double(personal, real and nominal) entry

**Branches of accounting**:

***Financial***: show the results( profit or loss) during particular period and to state financial position(balance sheets) at the end of period

***Cost***: find cost of goods produces and services rendered by business. helps to control costs by saying

avoidable wastes( due to natural calamities).

***Management***: managers decide based on cost accounting. ratio analysis, budget control, capital budgeting, standard costing

**External Users of Accounting inf:**

>***Investors***:

>***Creditors***: working capital(WC) = current assets(CA) - current liabilities(CL).

-WC increases when CA>CL

-WC decreases when CA<CL

> ***Members of non profit Org***:

>***Govt***: earnings and sales to taxation

>***Consumers***: selling price; cost of productoin may be reduced

> ***Research Scholars***: financial acc

**Internal Users of accounting info:**

>***Owners***: invested the money. profitability and financial position of concern

>***Management***: appraise the performance of subordinates. planning, controlling, decision making ,etc. fixing selling prices

>***Employees***: bonus depends on size of profit.

**Systems of Accouting:**

-- ***Cash System***: actual cash recipts and actual cash payments are recorderd. credit transactions(cash paid the next day) are not recorded.

--***Mercantile***(Accrual) System: all transactions are recorder for a particular period of time, outstanding expences(not paid in time- liability), outstanding incomes(not recieved in time- asset), prepaid expenses(asset), income recieved in adv(liability).

**Advantages of Financial Accounting:**

-Replacing memory: human cannot remember everything

-assist performanc of business: accounting records help us to prepare income statemtn to know the profit earned or lost incurred.

-assist finanxial status of business: at the end of year, reveals true position of business on particular date.

-Documentry evidence: proof

-Assistijng in realisation of debt: amount due to debtors.

-Facilitating the sale of business: reveals the value of assets and liabilities

-Preventing and Deducting frauds: systematic and orderly accounting helps

-Helpful to mgmt: assess the acheivements of its performance.

**Disadvantages of Financial Accounting:**

-Ignores qualitative aspects: like mgmt reputation, labour strike, employee morale, etc

-Biased acc info: mgmt may be biased and give manipulative feedback

-Ignores present value: assets that are been purchased, is made at book value and ignores the market value.

-Inexactness: evaluates profit or loss on the basis of real and planned estimates.

**Characteristics of Accounting Principle:**

- man made derived from experiences and reason

- not static and can be changeable

- depends on relevance, objectivity, feasibility

**Categories of Acc Principles:** Concepts and Conventions

**Concepts**: postulates/ basic assumptions or condutions upon which the science of acc is based.

a)***Business Entity***: busniess and owner as seperate entities.

when accountings are entered, proprietory accounts were not entered.

We assume propritey extended his cash to the business.

capital(liability because business owes money to the proprietor)

***b) Money measurement concept(MMC):*** all the transactions were entered in monetory terms.

physcial units were not entered. we should not enter quantity,

e.g, for a builfing, we should not enter area. we shoould enter only value of the building.

Why? comparison of financial stmts over the years and built upon org of same year is possible only becaise of this MMC.

assets and liabilities are recorded in common medium of exchange is called as money

***c) Going concern concept(gcc):*** we assume that business is going to continue.

we have opening and closing blanaces.

backbones are closed at the end of the year and we are tranferring to the next year.

ownership can be changed, but the company will remain forever.

***d) Cost Concept***: any asset purchased will be recorded at the cost price. so its book value was entered in bok of accounts and not the market value.

market value will be calculated only when the business have been solf to another concern or another entity.

***e) Dual Aspect:*** a) yielding of benefits b) giving of benefits

assume we are paying rent. payed by tenant and recived by landlord.

***f) Accounting period***: when acc records are kept on a continuous basis but the owner wants to know whether it is profitable or not.

it will be checked after the closing of the acc normally the 12 months period(1st apr to 31st march)

***g) Matching Concept:*** recognize the expenses in the same acc period in which across the revenues are being related so we are goin to mathc the revenues and our expenses to find out the profit or loss.

***h) Realisation concept:*** revenue is realized when the goods or service related to service delivered or rendered.

eg., we are makeing a sale on credit, so the sales is recorded only in this moonth and we will recieve cash in the next month. sales will only be recorded in this month because it is realized.

***i) Accrual Concept:*** ref(pg 4)

***j) Objective Evidence Concept***: Every transactuioin must have an eye evidence. vouching- voucher means documentry evidence of any transaction.

eg., purchase is made, indent bill is called voucher. salary is paid, payslip is voucher. Every transaction is recorded in books of accounting must have verifiable doc in support of its existence.

**Conventions**: undergo change in time.

***a) Full disclosure***: owner nmust disclose the entire info to the outsiders and also insiders. all significant info relating to economic affair should be disclosed to proprietors and potential credttors, investors and other stakeholders.

This convention also applies to events after the balance sheet date(31st march) eg., contingent liabilities which may or may not occur again like a case pending in the court. any workmen compensation case is pending in the court, the result maybe against/for the company.

based on the result, we will have liability. all these contingent liabilities will be entered at foot note of the balance sheet.

***b) Consistency***: uniform way of recording the transaction. when we have valuation of stock and asset, we must have consistent way of calculating stock value or asset value.

Accounting practices should remain unchanged over period. working rules should once choose and should not change arbitrarily without notice of the effect of change to the users.

when you change the depreciation method, we must have proper adjustments regarding the change in the value of your asset.

***c) Conservatism***: expect losses, not gains

***d) Materiality***: any info which is said to be significant(material) is recorded in the accounting records. so any irrelevant info is not disclosed. unimportant items are either left or merged with the other items. assume the petty cash(expenses or items) is merged with main cash(expenses or items).

**Terminologies**:

- ***Transaction***: exchange of goods and services

- ***Voucher***: evidence in support of transaction

- ***Capital***: amount invested by the owner in the firm. it may be in the form of cash or assets of owner.

- ***Drawing***: money/ goods withdrawn by owner from business for personal use.

- ***Goods***: items purchased for the purpose of resale and not for use in business. eg., real estates

- ***Purchases***: only for resale. trading- final goods. manufacturing- raw materials.

- ***Sales***: total revenues from goods sold or services provided. cash sales or credit sales

-***Stock in Trade***: maintained at end. low valued cost/market price

- ***Closing Stock***: unsold at end of accounting year. it becomes opening stock of next year.

- ***Cost of sold goods*** = sales - gross profit (or) opening stock + purchases - closing stock

- ***Credit***: either decrease assets or increase liabilities and equity

- ***Debit***: either increase in assets or decrease in liabilities

- ***Journal***: business transactions are entered in order of appearance(chronological)

- ***Posting***: transfer from journal to ledger

- ***Ledger***: accs organized by their nature.

- ***Subsidary Books***: Kind of journal for recording transactions of similar nature in chronological order

**Assets**: economic resources of an enterprise useful in it's operations.

- ***Fixed***: long-term basis. eg., lands, buildings, furniture, etc., huge investments. increases capacity to produce/ earning.

- ***Current***: short-term. converted into cash within one year. Eg ., stock, debtors, etc.,

**Liabilities**: debts that an enterprise has to pay in future.

- ***Long-term***: more than year. eg., long term loan

- ***Short-term***: within one year. eg., bills payable, bank overdrafts, etc.,

***Revenues***: income from any source. regular. eg., commission, interests, dividends

***expenses***: costs spent by business for earning revenues. eg., rent, salaries to employees, etc

***Expenditure***: spending money for acquiring assets, goods or services.

- ***Revenue expenditure***: benefit is received within a year. eg., rent

- ***Capital Expenditure:*** lasts more than a year. eg., machinery

- ***Deferred Revenue Expenditure***: spent during current year. benefits are derived in future acc periods. eg., advertisements, preliminary expenses.

**Expenses**(fixed, variable, accrued, operation)

- ***Fixed***: happen in regularly scheduled period. eg., rent. Here, total cost is constant irrespective of usage.

- ***Variable***: varies according to output. eg., labor costs. Here cost per unit is constant, so total cost changes no. of units used is changed.

- ***Accrued***: Which hasn't been paid

- ***Operation***: concern with production of goods and services. operating expenses namely, salary, ads, rent, electricity, etc

- ***Accrued***: expense that has occurred but not recognized in accounts. liability

- Prepaid: paid in advance.

***Accrued Income***: income has occured but not recognized in accounts. asset

***Income recived in advance(Un-earned revenue):*** income recived in curent acc year and relates to forthcoming acc periods. recived but not earmed in year of recipt. liability

***Bank reconsilation:*** preparing 3 column cashbook, the bank column of cashbook should be tallied with bank passbook(book which passes between banker and the customer). balance as per passbook and balance as per bank column of cashbook may be the same. mostly different.

assume, cheques are deposited in this month, but not collected. it will be cllected next month.

***Contingent Liability: should.check.in.google***

***Depreciation***: decrease in value of asset. that may be due to wear-and-tear, change in technologies, etc. calculated over the estimated useful life of asset. so at end of life of the asset, we will replace the asset.

-non fund.

-tax deductible amount

-shows on debit side of profit or loss account.

-secret reserve.

***Good will***: premium paid over your purchase considerations.

***opreration cycle:*** time taken to convert cash into a cash again.

assume in manufacturing org., cash - purchase of raw materials - work in progress - finished goods - sales - data - bills recievable - cash

***Profit*** = Revenue - expenses. gained by stress and strain of the entrepreneur.

***Gain***: non recurring profit. incidental to the business.

***Loss*** = Expenses - Revenue

***Discount***: rebate by seller to the buyer.

-***Trade***: by manufacturer to the purchaser to encourage bulk purchases. persuade to buy more goods. agreed % list(invoice) prices at the time of selling. this will be deducted from invoice. not recorded in journal.

-***Cash***: to encourage debtors to pay the dues promptly. recorded in jouranls.

***Debtors***: persons/entities to whom business has sold goods and sevices on credit and amt has not recieved yet. assets

***Creditors***: business buy goods/services on credit and amt is still to be paid. liabilities.

Accounts(bills) recivable:

Accounts(bills) payable:

***Trial balance***: this is to check the arithmetical accuracy of your books of accounts. business doc in whihc all ledgers are compiled into debit and credit columns in order to ensure a company's bookkeeping is mathematically correct.

***Income statement***: summary of revenues and expenses over period of time. profit or loss.

***Balnce sheet:*** financial report that shows company's assetsw and liabilities.

***Cash flow:*** revenue expected to be generated through busuness activities( sales, manufacture, etc) over period of time.

***Certified public accountant***: CA

***Generally accepted accounting principles(GAAP):*** acc industris for companies to follow when reporting your financial data.

***Gross Margin:*** difference between net sales and cost of goods sold(cogs).

***Net income/loss:*** total revenues and gains comapared with total expenses and losses for acc period.

***Equity*** = assets - liabilities.

***Owner's equity:*** percentage of stock a person has ownership interest in the company. onwers of stock are stakeholders.

***Expansion***: inceasing production/sales weithout varying main prod process or type of products produced. same line of business

Diversification:

***Insolvency***: Assets < Liability

**Types of Accounts:**

\* ***Personal account:***

- *natural*: human beings. eg., charan's account, satya's account, etc.,

- *artificial*: created artificially by law. such as business entities. eg., clubs, partnership companies.

- Representative:

\* ***Real Accounts***: all assets of a firm, which are tangible or intangible.

- *tangible*: can be touched and felt. eg., buildings, machinery, etc.

- *intangible*: can't be touched and felt. eg., goodwill, trademarks, etc.

\****Nominal Accounts***: existing in name only. all your expenses, revenues are said to be nominal in nature.

we cannot see salary, commission, interest, dividend, renumeration. all these can be seen as cash but we cannot really see all these.

**Steps of Accounting Cycle:**

1. identify business events and write them in journal
2. post entries in ledger
3. prepare unadjusted trial balance
4. analyze train balance
5. post adjusting journal entries
6. prepare financial statements using adjusted entries
7. close all temp stmts accs with closing entries
8. prepare post closing trial balnace for next acc period
9. prepare reversing entries to cancel temp adjusting entries

**Golden rules for Double Entry**

***personal***: debit reciever and credit giver

***real***: debit what comes in and credit what goes out

***nominal***: debit all expenses and losses and credit all incomes and gains